

**SECRETARY OF DEFENSE LEON E. PANETTA
STATEMENT ON FISCAL 2013 BUDGET
PENTAGON PRESS BRIEFING ROOM
THURSDAY, JANUARY 26, 2012**

Good afternoon.

As you know, this Department has undertaken a fundamental review of its defense strategy and spending priorities.

The reasons for this review are clear: first, we are at a strategic turning point after a decade of war and substantial growth in defense budgets, and second, the Congress has required that the defense budget be reduced by \$487 billion over the next decade.

To accomplish this, we focused first on developing a new strategy for the U.S. military force of the future. That strategy has guided us in making a series of budget choices and establishing a new set of defense priorities.

This ongoing process reached an important milestone last month with the release of new strategic guidance and priorities for 21st century defense, and will be reflected in the decisions that have been made in the President's budget.

When I announced that new guidance, I highlighted five key elements of this strategy and vision for the military force of the future.

- First, the military will be smaller and leaner, but it will be agile, flexible, ready and technologically advanced.
- Second, we will rebalance our global posture and presence to emphasize Asia-Pacific and the Middle East.
- Third, we will build innovative partnerships and strengthen key alliances and partnerships elsewhere in the world.
- Fourth, we will ensure that we can quickly confront and defeat aggression from any adversary – anytime, anywhere.
- Fifth, we will protect and prioritize key investments in technology and new capabilities, as well as our capacity to grow, adapt and mobilize as needed.

Given the significant fiscal constraints that have been imposed on this Department, our approach was to use this as an opportunity to maintain the strongest military in the world, to not hollow out the force, to take a balanced approach by putting everything on the table, and to not break faith with the troops or their families.

The entire leadership of this Department, military and civilian from across all the services, is united in the belief that this strategy, and the resulting budget decisions, follows the right approach to meet the country's most pressing security challenges and preserve the strongest military in the world.

Today, I will offer a preview of the decisions we made to build the Department's budget request for fiscal year 2013 and the Future Years Defense Plan. Consistent with the Budget Control Act, this plan reduces defense spending by \$259 billion over the next five years compared to last year's budget request.

The Department will request \$525 billion for its base budget in fiscal 2013, with a plan to rise to \$567 billion by fiscal 2017. In fiscal 2013, we will ask for an additional \$88.4 billion for overseas contingency operations to maintain support for our troops in combat. That compares to a base budget of \$531 billion and \$115 billion for overseas contingency operations for fiscal 2012. This is a balanced, complete package that follows the five key elements of the strategy and vision I have described.

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1. A force that is smaller and leaner, but agile, flexible, ready and technologically advanced

First, we knew that coming out of the wars and dealing with budget reductions of this magnitude, the military would become smaller. Our approach to accommodating these reductions, however, has been to take this as an opportunity – as tough as it is – to fashion the agile and flexible military force we need for the future.

The result will be an adaptable and battle-tested Army that is our nation's force for decisive action, capable of defeating any adversary on land; a Navy that maintains forward presence and is able to penetrate enemy defenses; an Air Force that dominates air and space and provides rapid mobility, global strike and persistent ISR; a Marine Corps that is a “middleweight” expeditionary force with reinvigorated amphibious capabilities; and a National Guard and Reserve component that is ready and prepared for operations – all networked into a highly capable joint force.

To ensure an agile and ready force, we made a conscious choice not to maintain more force structure than we could afford to properly train and equip. The budget also seeks to retain the most flexible, versatile and technologically advanced platforms needed for the future – from aircraft carriers to 5th generation aircraft. Striking the right balance between force structure and readiness is critical to our efforts to avoid a hollow force, and we'll continue to focus on this area to ensure we make the right choices.

In this budget, we plan to gradually resize the active Army to 490,000, and the active Marine Corps to 182,000. This plan maintains both services at slightly larger levels than they were prior to 9/11. They will be fundamentally reshaped by a decade of war – far more lethal, battle-hardened and ready.

The changes to the size of our ground forces allowed us to examine the Air Force's airlift fleet. Our intensive review determined that we could reduce, streamline and standardize our airlift fleet with minimal risk.

We were also able to identify excess capabilities in tactical air forces. We currently have 60 Air Force tactical air squadrons and the review determined that we could eliminate six of the 60, as well as one training squadron, at minimal risk to our dominance of the skies.

The Navy is protecting our highest priority and most flexible ships, such as Arleigh Burke destroyers. It will retire lower priority cruisers that have not been upgraded with ballistic missile defense capability or that require significant maintenance, as well as combat logistics and fleet support ships.

As we build this leaner and more agile joint force, we also need to redouble efforts to maximize value across the defense enterprise. To that end, in this budget we sought to reduce excess overhead, eliminate waste, and improve business practices across the Department, identifying about \$60 billion in savings over five years, on top of the substantial efficiency efforts we already have underway. This will involve areas such as more aggressive and competitive contracting practices, better use of information technology, streamlining of staff, reductions in contract services, and better inventory management.

We will also need to look at facilities infrastructure – balancing overseas forward presence requirements with basing requirements back home. In this budget environment, we simply cannot sustain infrastructure that is beyond our needs or ability to maintain. Therefore, the President will request that Congress authorize use of the Base Realignment and Closure (BRAC) process with a goal of identifying additional savings and implementing them as soon as possible.

2. Rebalance our global posture and presence to emphasize Asia-Pacific and the Middle East.

This budget protects, and in some cases increases, investments that are critical to our ability to project power in Asia and the Middle East.

That requires an Air Force that is able to penetrate sophisticated enemy defenses and strike over long distances, so we will be funding the next-generation bomber and sustaining the current bomber fleet. We are also moving ahead with our next generation aerial refueling tanker.

The strategy also envisions a Navy and Marine Corps that is postured forward – bringing a stabilizing presence and combat power as needed, with an emphasis on these critical regions. The Marines will sustain their level of presence in the Pacific, and this budget supports enhanced presence and partnering opportunities with Australia and others. It also provides the resources to forward-station Littoral Combat Ships in Singapore and patrol craft in Bahrain.

As I announced last weekend, sustaining our ability to project power in these regions will require maintaining the aircraft carrier fleet at 11 ships with 10 air wings, and maintaining our big-deck amphibious fleet.

Modernizing our submarine fleet will be critical to our efforts to maintain maritime access in these vital regions of the world. In this budget, the Navy will invest in a design that will allow new Virginia-class submarines to be modified to carry more cruise missiles, and develop an undersea conventional prompt strike option.

Across the force, we will invest in upgraded sensors for aircraft, ships and missiles; and the most advanced electronic warfare and communications capabilities.

Meanwhile, the strategy requires the Army to return to full-spectrum training, developing a versatile mix of capabilities, formations and equipment to succeed on land, including in environments where access is contested.

The Army will maintain its significant force structure in the Pacific, including on the Korean peninsula, and maintain an operationally responsive peacetime presence in the Middle East.

3. Build innovative partnerships and strengthen key alliances and partnerships elsewhere in the world.

The strategy also envisions the Army developing innovative approaches to presence and partnership that will ensure our continued engagement with allies and partners across the globe. For example, the Army will align a Brigade Combat Team with each regional Combatant Command. And even as we moderately reduce the permanent, fixed Army presence in Europe, we will increase rotational deployments on the continent so that our forces have more opportunities to train and operate with their European counterparts.

More broadly, the United States will continue to invest in the shared capabilities and responsibilities of NATO, responding to the Alliance's most critical needs such as increased ISR and ballistic missile defense capabilities.

Elsewhere in the world, the gradual drawdown of the post-9/11 wars will provide more opportunities for Special Operations Forces to advise and assist partners in other regions, and we prioritize the most important programs for building partnership capacity.

4. We will ensure that we can quickly confront and defeat aggression from any adversary – anytime, anywhere

The strategic guidance reaffirmed that the United States must have the capability to fight more than one conflict at the same time. Still, the changing nature of conflict demands greater flexibility to shift and deploy forces to be able to fight and defeat any enemy anywhere.

The strategic guidance recognizes that how we defeat the enemy may well vary across conflicts, and this budget leverages new concepts of operations and advances in space, cyberspace, special operations, long range precision-strike and other capabilities to ensure that we can still confront and defeat multiple adversaries.

The budget also affirms the importance of strategic deterrence, and provides for all three legs of the nuclear triad – bombers, intercontinental ballistic missiles, and ballistic missile submarines. However, our review determined that we could delay the next generation ballistic missile submarine for two years without harming the survivability of our nuclear deterrent. We are fully committed to a safe, secure, and effective deterrent to achieve national security objectives.

5. Protect and prioritize key investments in technology and new capabilities, as well as our capacity to grow, adapt and mobilize as needed.

The force we are building will retain a decisive technological edge, leverage the lessons of recent conflicts and stay ahead of the most lethal and disruptive threats of the future.

That meant protecting or increasing investment in cyber capabilities, the ability to project power in denied areas, special operations forces, homeland missile defense, and countering weapons of mass destruction. In order to protect vital investments for the future, we protected science and technology programs.

At the same time, the strategic guidance recognizes the need to prioritize and distinguish urgent modernization needs from those that can be delayed – particularly in light of schedule and cost problems.

We have made reasonable adjustments to a number of programs, but let me briefly mention a change to the Joint Strike Fighter, a program that remains essential to the future of air superiority. The Department remains committed to the JSF program of record. But in this budget, we have slowed procurement to complete more testing and allow for developmental changes before buying in significant quantities.

The force structure shifts I've outlined today entail some risk, to be sure. But to manage that risk, we will ensure that we can mobilize, surge, and adapt our force to meet the requirements of an uncertain future.

To that end, the Army will retain more mid-grade officers and NCOs even as their overall end strength decreases to ensure we will have the structure and experienced leaders necessary to re-grow the force quickly.

Another part of ensuring the ability to mobilize quickly will be retaining a capable, ready and operational Reserve Component, leveraging ten years of experience in war. Consequently, we are making only marginal reductions in the Army reserve and Army National Guard and no reductions in the Marine Corps Reserve. The Air Force will make balanced reductions in the Air National Guard consistent with reductions in both the Active Component and Air Force Reserve.

Finally, this budget recognizes that a critical part of our ability to mobilize is a healthy industrial base. Maintaining the vitality of the industrial base, and avoiding imposing unacceptable costs or risks on our critical suppliers, guided many of the decisions we have made.

Ensuring quality of All-Volunteer Force

Now to the most fundamental element of our strategy and our decision-making process: our people. This budget recognizes that they, far more than any weapons system or technology, are the great strength of our United States military. For that reason, we focused first on every other area of the defense enterprise for savings in order to minimize any impact on the quality of life for troops and families.

As a result, we were able to sustain or enhance critical support programs, while reforming and re-organizing others to be more effective and responsive to the needs of their troops or families.

Yet in order to build the force needed to defend the country under existing budget constraints, the escalating growth in personnel costs must be confronted. This is an area of the budget that has grown by nearly 90 percent since 2001. The budget will contain a roadmap to address the costs of military pay, health care, and retirement in ways that are fair, transparent, and consistent with our fundamental commitments to our people. We recognized throughout this process that we can never repay our service members and their families for all their sacrifices.

On compensation for service members, we created sufficient room in the budget to allow for full pay raises in 2013 and 2014 that keep pace with increases in private-sector pay. We will achieve some cost savings by providing more limited pay raises beginning in 2015. This will give troops and their families fair notice and lead time before these proposed changes take effect.

On health care, another area of tremendous cost growth in the Department, we have avoided changes that negatively impact active duty troops or their families. But we decided that to help control the growth of health care costs, we are recommending increases in health care fees, co-pays and deductibles for retirees. But let me be clear that even after these increases, the cost borne by military retirees will remain below levels in most comparable private sector plans.

We also feel that the fair way to address military retirement costs was to ask Congress to establish a commission with authority to conduct a comprehensive review of military retirement. But the President and the Department have made clear that the retirement benefits of those who currently serve will be protected by grandfathering their benefits.

Conclusion

Putting together a budget that maintains the quality of the all-volunteer force and implements significant mandated savings has been a difficult undertaking and, at the same time, an important opportunity to shape the force we need for the future. I believe we have developed a complete package, aligned to achieve our strategic aims. The bottom line is that there is little room for modification to preserve the force and capabilities we believe are needed to protect the country and fulfill assigned missions.

Ultimately we will need the support and the partnership of Congress to implement this vision of the future military. Make no mistake, the savings we are proposing will impact all 50 states, and many districts across America. This will be a test of whether reducing the deficit is about talk or action. My hope is that when members understand the sacrifice involved in reducing the defense budget by half a trillion dollars, it will convince Congress to avoid sequestration, a further round of cuts that would inflict severe damage to our national defense for generations.

I look forward to working closely with the leaders of this Department and with leaders on the Hill to do what the American people expect of their leaders: be fiscally responsible in

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developing the force for the future – a force that can defend the country, supports our men and women in uniform, and is the strongest military in the world.

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